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HOUSE OF REPRESENTATIVES
REPORT
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5-YEAR EXTENSION OF NONDISCRIMINATORY TREATMENT TO PRODUCTS OF HUNGARY

JUNE 21, 1989.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

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Mr. ROSTENKOWSKI, from the Committee on Ways and Means, submitted the following

REPORT

[To accompany H.R. 1594]

[Including cost estimate of the Congressional Budget Office]

The Committee on Ways and Means, to whom was referred the bill (H.R. 1594) to extend nondiscriminatory treatment to the products of the Peoples' Republic of Hungary for 5 years, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

The amendment is as follows:

Page 2, line 9 insert the following before the period:

; except that, notwithstanding the provisions of paragraph (1) of such section, the renewal of the commercial agreement after the date of the enactment of this Act shall be for a period ending not sooner than July 4, 1994

BACKGROUND

Section 5 of the Trade Agreements Extension Act of 1951 (P.L. 49-50) directed the President to withdraw or suspend most-favored-nation (MFN) status for the Soviet Union and all countries under Communist control. This action was prompted by the outbreak of the Korean war and the fact that many of those countries were giving support to North Korea and China. Title IV of the Trade Act of 1974 (the so-called Jackson-Vanik amendment, described more fully below) authorizes the President to extend MFN treatment to Communist countries when certain conditions relating to the freedom of emigration of their citizens have been met.

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Since the adoption of the Trade Act of 1974, three countries have been granted MFN status on an annual basis—Hungary (1978 to present), Romania (1975 to 1988), and the Peoples' Republic of China (1980 to present).

COMMITTEE ACTION

H.R. 1594, a bill to extend nondiscriminatory treatment to the products of Hungary for 5 years, was introduced on March 23, 1989, by Mr. Gibbons (D., Fla.), Mr. Frenzel (R., Minn.) and Mr. Lantos (D., Calif.). The bill was referred to the Committee on Ways and Means and subsequently to the Subcommittee on Trade. On June 12, 1989, the Subcommittee held a public hearing and received testimony from the Administration and an association of importers and exporters. On June 14, 1989, the Subcommittee by voice vote ordered H.R. 1594 favorably reported to the full Committee with one amendment. On June 20, 1989, the Committee by voice vote ordered H.R. 1594 favorably reported as approved by the Subcommittee on Trade.

SECTION-BY-SECTION ANALYSIS, COMPARISON WITH PRESENT LAW, AND REASONS FOR CHANGE

Present law

Title IV of the Trade Act of 1974 (P.L. 93–618, as amended), the so-called Jackson-Vanik amendment, sets forth specific criteria governing U.S. trade relations with nonmarket economy countries. If the President determines that a country: (1) denies its citizens the right or opportunity to emigrate; (2) imposes more than a nominal tax on emigration or on the visas or other documents required for emigration, for any purpose or cause whatsoever; or (3) imposes more than a nominal tax, levy, fine, fee, or other charge on any citizen as a consequence of the desire of such citizen to emigrate to the country of his choice, then the President may not grant most-favored-nation (MFN) tariff treatment, extend U.S. Government credits, credit guarantees, or investment guarantees; or enter into a trade agreement with such country.

The President may waive the prohibitions described above and extend MFN treatment to a country on an annual basis, if he: (1) determines that so doing will substantially promote the objectives of the law (i.e. freedom of emigration) and (2) has received assurances that the emigration practices of the country will lead substantially to the achievement of the objectives. Such a waiver is subject to Congressional disapproval.

Explanation of provision

H.R. 1594 would supersede the Jackson-Vanik provision and extend, by statute, MFN treatment to Hungary for five years. A bilateral trade agreement, governing the terms of our trade relations, would have to remain in force during that period, as is also true under current law. An amendment was adopted by the Subcommittee on Trade, providing for the renewal of such agreement for a period of five years. Finally, H.R. 1594 would suspend the application of relevant provisions of Title IV of the Trade Act of 1974, relating to the extension of MFN treatment to Hungary, except for

those provisions necessary for the President to extend MFN treatment after the expiration of the bill on July 3, 1994.

Reasons for change

Hungary's record in the area of emigration has been consistently positive in recent years. In his May 31, 1989, message to Congress indicating his intention to extend MFN treatment to Hungary for an additional year (House Document 101-69), the President noted in part that "Hungary has continued to take a positive and constructive approach to emigration matters. In 1988 all Hungarians who applied to emigrate for purposes of family reunification received permission to depart."

Even more significantly, the President noted that "the Hungarian Government has announced plans to introduce legislation this August which will authorize free emigration to all except those with 'state responsibilities' (presumably security related jobs), and those serving prison sentences. If passed by Parliament, this will bring Hungary's law into conformity with current practices. In such case Hungary could then be considered for MFN treatment under Section 402(b) of the 1974 Trade Act, throughout the duration of our renewable 3-year agreement on trade relations." If the President moved to grant MFN treatment to Hungary for longer than the annual grant under the waiver authority, it would represent the first time that any country has been deemed in full compliance with the Jackson-Vanik conditions.

In light of Hungary's exemplary record on emigration matters and that country's clear moves toward a freer economy and pluralistic political system characterized by free elections, it is time for the United States to move more boldly to recognize and reward these moves. Extension of MFN treatment under the terms of the Jackson-Vanik amendment leaves an element of uncertainty in the trade relationship; MFN treatment may be rescinded by action of the President. If the United States is truly interested in promoting more stable trade and investment ties with Hungary, then the bilateral trade agreement and associated MFN treatment should be extended for a longer period of time than that permitted under Jackson-Vanik (3 years). Moreover, it should not be subject to withdrawal by simple action of the President, as is the case under Jackson-Vanik.

The Committee believes that it is in the interests of both the United States and Hungary for our trade and investment ties to grow and flourish. Hungary's consistently good performance on emigration matters should reassure anyone who is concerned that a 5-year grant of MFN treatment, as provided by H.R. 1594, would be inappropriate. In these days of dramatic and historic change in so many Communist societies, it is important that the United States be willing to take clear and decisive steps to reward countries undertaking peaceful change toward more democratic, pluralistic systems. Enactment of H.R. 1594 would represent such a step in the case of Hungary.

VOTE OF THE COMMITTEE IN REPORTING THE BILL

In compliance with clause 2(l)(2)(B) of rule XI of the Rules of the House of Representatives, the following statement is made relative to the vote of the Committee in reporting the bill: H.R. 1594 was ordered favorably reported with an amendment by voice vote by the Committee on Ways and Means.

OVERSIGHT FINDINGS

In compliance with clause 2(l)(3)(A) of rule XI of the Rules of the House of Representatives relating to oversight findings, the Committee concludes, on the basis of hearings by the Subcommittee on Trade and developments in Hungary, that legislation granting Hungary most-favored-nation status for a 5-year period, outside the framework of Title IV of the Trade Act of 1974, would serve the interests of both the United States and Hungary.

With respect to clause 2(l)(3)(D) of rule XI of the Rules of the House of Representatives, no oversight findings or recommendations have been submitted to the Committee by the Committee on Government Operations with respect to the subject matter contained in the bill.

BUDGETARY AUTHORITY AND COST ESTIMATES, INCLUDING ESTIMATES OF THE CONGRESSIONAL BUDGET OFFICE

In compliance with clause 7(a) of rule XIII and with clause 2(l)(3)(B) of rule XI of the Rules of the House of Representatives, the Committee states that H.R. 1594, as reported, does not provide new budget authority or any new or increased tax expenditures.

In compliance with clause 7(a) of rule XIII and with clause 2(l)(3)(B) and (C) of rule XI of the Rules of the House of Representatives, the Committee states that it agrees with the information furnished by the Congressional Budget Office on H.R. 1594 as reported, which is provided below:

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, June 21, 1989.

Hon. DAN ROSTENKOWSKI,
Chairman, Committee on Ways and Means, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has reviewed H.R. 1594, the bill concerning most-favored-nation status for Hungary, as ordered reported by the Committee on Ways and Means on June 20, 1989. We expect that enactment of this bill would have no budgetary effect through the end of 1994.

H.R. 1594 would grant most-favored-nation trade status to Hungary for 5 years beginning on July 4, 1989, without regard to the restrictions contained in the Trade Act of 1974. Under this 1974 legislation, most-favored-nation status, and its accompanying preferential customs duty rates, may not be conferred on countries with nonmarket economies that have restrictive emigration policies. Under these conditions, Hungary does not currently qualify for most-favored-nation status. The President may, however, waive the prohibition on an annual basis under current law, and has done so in the case of Hungary in every year since 1978. Hungary

has had most-favored-nation status on an annual basis for the last 11 years.

Our baseline does not make any explicit assumptions about most-favored-nation status for Hungary, or for any other nation. Since Hungary has had most-favored-nation status for the last 11 years, our baseline implicitly assumes it will continue to have this preferential customs treatment. As a result, we estimate no revenue effect from enactment of this bill relative to our baseline estimate.

In addition, no costs will be incurred by State and local governments as a result of enactment of H.R. 1594.

If you wish further details, please feel free to contact me or your staff may wish to contact Mark Booth of the Tax Analysis Division at 226–2680.

Sincerely,

ROBERT D. REISCHAUER,
Director.

INFLATIONARY IMPACT STATEMENT

With respect to clause 2(l)(4) of rule XI of the Rules of the House of Representatives, the Committee states that because H.R. 1594 would have no revenue impact according to analyses provided to the Committee by the Congressional Budget Office, the bill would have no inflationary impact on prices and costs in the operation of the general economy.

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